

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO**

AUDIT REPORT

**FOR THE YEAR ENDED
DECEMBER 31, 2018**

James G. Zupka, CPA, Inc.
Certified Public Accountants



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Members of City Council
City of Highland Heights
5827 Highland Road
Highland Heights, Ohio 44143

We have reviewed the *Independent Auditor's Report* of the City of Highland Heights, Cuyahoga County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2018 through December 31, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Highland Heights is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

June 23, 2020

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**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Members of City Council
City of Highland Heights
Highland Heights, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights as of December 31, 2018, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the basic financial statements, during 2018, the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2020, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "James G. Zupka, CPA, Inc." The signature is written in a cursive style.

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 3, 2020

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City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) For the Year Ended December 31, 2018

The discussion and analysis of the City of Highland Heights' (the City) financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2018. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

FINANCIAL INFORMATION

Key financial highlights for 2018 are as follows:

- The City's total assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$29,056,932.
- The net position decreased \$1,768,630 from the prior year.
- Total liabilities and deferred inflows of resources decreased by \$11,342 from the prior year.
- The unassigned fund balance for the General Fund was \$9,404,783 or 65.70 percent of the General Fund expenditures (including other financing uses).

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: **1)** government-wide statements; **2)** fund financial statements; and **3)** notes to the financial statements.

Government-Wide Statements

The government-wide statements are designed to provide readers with a broad overview of the City's finances on a full accrual basis of accounting, which is similar to a private-sector business. The statement of net position presents information on all of the City's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, basic utility services, community environment, leisure time activities, and public health services. There are no business-type activities reported for the City.

Fund Financial Statements

The fund financial statements are used to report additional and detailed information about the City. These statements focus on major funds of the City. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation in the financial statements.

Fiduciary Funds - Used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used in proprietary funds.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's net pension liability and net OPEB liability.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

THE CITY AS A WHOLE

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's net position decreased from \$30,825,562 in 2017 to \$29,056,932 in 2018 or 5.74 percent from the prior year.

The table below provides a summary of the City's net position for 2018 and 2017.

Table 1 - Net Position

	Governmental Activities	
	2018	2017*
<u>Assets</u>		
Current and Other Assets	\$ 22,028,099	\$ 22,669,058
Capital Assets	42,534,280	43,889,148
Total Assets	64,562,379	66,558,206
<u>Deferred Outflows of Resources</u>		
Deferral on Refunding	36,840	49,120
Pension	2,479,104	3,538,271
OPEB	1,337,571	50,269
Total Deferred Outflows of Resources	3,853,515	3,637,660
<u>Liabilities</u>		
Long-term Liabilities		
Due within one year	4,035,613	5,629,184
Due in More than One Year:		
Net Pension Liability	13,494,884	14,841,466
Net OPEB Liability	11,676,233	9,718,930
Other Amounts	5,831,752	6,801,626
Other Liabilities	1,169,539	492,703
Total Liabilities	36,208,021	37,483,909
<u>Deferred Inflows of Resources</u>		
Property Tax	1,377,981	1,337,355
Pension	1,501,765	549,040
OPEB	271,195	-
Total Deferred Inflows of Resources	3,150,941	1,886,395
<u>Net Position</u>		
Net Investment in Capital Assets	34,217,338	33,062,262
Restricted	6,080,036	7,853,487
Unrestricted	(11,240,442)	(10,090,187)
Total Net Position	\$ 29,056,932	\$ 30,825,562

*Restated

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

For fiscal year 2018, the City adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the City's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the City's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the City's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the City is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from \$40,494,223 to \$30,825,562.

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2018, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$29,056,932. At year-end, unrestricted net position had a deficit of \$11,240,442. A portion of the City's net position, \$6,080,036, represents resources that are subject to external restriction on how they may be used.

Capital assets reported on the government-wide statements represent the largest portion of the City's net position. At year-end, capital assets represented 65.88 percent of total assets. Capital assets include land, construction in progress, land improvements, buildings, furniture, fixtures and equipment, vehicles, and infrastructure. The net investment in capital assets component of net position at December 31, 2018, was \$34,217,338 for governmental activities. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

The table below shows the changes in net position for fiscal year 2018 and 2017.

Table 2 - Change in Net Position

	Governmental Activities	
	2018	2017
<u>Revenues</u>		
Program Revenues:		
Charges for Services	\$ 2,116,663	\$ 1,918,584
Operating Grants and Contributions	488,426	463,434
Capital Grants and Contributions	370,086	31,873
General Revenues:		
Property Taxes	1,435,374	1,449,642
Municipal Income Taxes	13,269,536	12,744,837
Other Taxes	45,475	47,901
Grants and Entitlements	258,151	246,184
Other	234,620	125,246
Total Revenues	18,218,331	17,027,701
<u>Program Expenses</u>		
Security of Persons and Property	9,270,447	8,163,133
Public Health Services	45,254	42,096
Leisure Time Activities	1,055,761	1,186,347
Community Environment	136,017	123,559
Basic Utility Services	3,239,329	3,066,284
Transportation	2,728,410	1,344,544
General Government	3,320,733	2,799,720
Interest and Fiscal Charges	191,010	227,689
Total Program Expenses	19,986,961	16,953,372
Change in Net Position	(1,768,630)	74,329
Net Position, Beginning of Year, Restated	30,825,562	N/A
Net Position, End of Year	\$ 29,056,932	\$ 30,825,562

Total revenues increased in 2018. This is primarily due to an increase in capital grants and contributions and municipal income taxes. Capital grants and contributions increased due to the city being granted funds from OPWC in 2018. The City's largest revenue source is income tax. The income tax rate is 2.00 percent on gross income and net profits. This rate has been in effect since January 1, 2007, when the tax was increased by 0.50 percent by a vote of the residents. Residents of the City who work in another community and pay the withholding tax for that community receive a 100 percent tax credit on their city tax for Highland Heights. The City's collection agency is the Regional Income Tax Agency located in Brecksville, Ohio. During 2018, income tax revenue was \$13,269,536. There was an increase of \$524,699 compared to prior year's collections mainly attributable to higher net profits from employer withholdings in 2018. The City's second largest revenue source is charges for services. Charges for services increased by \$198,297 or 10.33 percent. The City's next largest revenue source is property taxes. The City's full tax rate for collection year 2018 was 4.00 mills. A mill is \$1.00 for every \$1,000 of assessed

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

valuation. The annual property tax is calculated using the taxable value (market value multiplied by 35 percent) of the property multiplied by the property effective tax rate levied by Cuyahoga County, City of Highland Heights, Mayfield City School District, Cleveland Metro Parks, Cuyahoga County Library System, Cuyahoga Community College and Cleveland-Cuyahoga Port Authority. During 2018, property taxes revenue was \$1,435,374.

Total expenses increased in 2018. This is primarily due to increases in the areas of security of persons and property and transportation. The City's increase in expenses for 2018 was \$3,033,589 or 17.89 percent as compared to 2017. Expenses are categorized by programs. The largest program, security of persons and property, which includes Police, Fire, Police and Fire Communications, and Public Safety, represent 46.38 percent of the governmental expenses. The Police Department is made up of 1 chief, 22 full-time sworn officers, 4 part-time, and 5 auxiliary officers, 4 full-time and 2 part-time dispatchers, and 3 secretaries. The Fire Department is composed of 1 chief, and 18 full-time, 8 part-time fire fighters/paramedics, and 1 part-time secretary. Training plays a crucial role in keeping up with the rapidly changing laws, practices, and technology. Training among our employees is performed in-house, attending seminars/conferences, continuing education classes, practice drills, and watching training videos. The next largest programs are general government, \$3,320,733 at 16.61 percent, basic utility services, \$3,239,329 at 16.21 percent, transportation, \$2,728,410 at 13.65 percent, and leisure time activities, \$1,055,761 at 5.28 percent. General Government is composed of the Mayor's Office, Council, Finance, Law, and General Administration.

The information necessary to restate the beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$50,269 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$966,194. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

	Governmental Activities
Total 2018 program expenses under GASB 75	\$ 19,986,961
OPEB expense under GASB 75	(966,194)
2018 contractually required contribution	24,998
Adjusted 2018 program expenses	<u>19,045,765</u>
Total 2017 program expenses under GASB 45	<u>16,953,372</u>
Increase (Decrease) in program expenses not related to OPEB	<u>\$ (2,092,393)</u>

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal period, the City's governmental funds reported combined ending fund balances of \$17,491,425. Of this amount, \$11,446,118 constitutes assigned and unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, and committed to indicate that it is not available for new spending because it is not in a spendable form, restricted for a variety of other purposes, and has already been committed to liquidate contracts and purchase orders of prior periods(s).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$9,404,783, while the total General Fund balance was \$11,653,057. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned General Fund balance represents 65.70 percent of General Fund expenditures (including other financing uses), while total General Fund balance represents 81.40 percent of the same amount.

GENERAL FUND BUDGETARY HIGHLIGHTS

The most significant budgeted fund is the General Fund. Over the course of the year, the City Council revised the City's General Fund budget several times to prevent budget overruns.

For the General Fund, actual revenue (including other financing sources) was the same as the final budgeted revenues of \$14,582,134.

The original appropriation (including other financing uses) of \$14,888,496 was increased to \$15,594,427. Even with these adjustments, the actual charges to appropriations (expenditures) were \$1,221,374 below the final budgeted amounts for the General Fund.

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the City had \$42,534,280 invested in a broad range of capital assets, including land, construction-in-progress, land improvements, buildings, improvements, machinery and equipment, furniture and fixtures, roads, and water and sewer lines (see Table 3 below). This amount represents a net decrease (including additions and deductions) of \$1,354,868, or 3.10 percent over last year.

Table 3 - Capital Assets at December 31 (Net of Depreciation)

	Governmental Activities	
	2018	2017
Land	\$ 1,679,660	\$ 1,679,660
Construction-in-progress	-	3,174,781
Land Improvements	695,738	832,299
Buildings	2,088,523	2,287,544
Machinery and Equipments	959,330	897,767
Furniture and Fixtures	13,262	14,710
Vehicles	1,276,662	1,365,172
Infrastructures	35,821,105	33,637,215
Total Capital Assets, Net	\$ 42,534,280	\$ 43,889,148

The City completed the Highland Road Water Main Replacement Project in 2018.

See Note 9 to the financial statements for more detailed information on capital assets.

Debt

The City had \$8,247,927 in outstanding debt at December 31, 2018, compared to \$10,753,642 at December 31, 2017, as shown in Table 4.

Table 4 - Outstanding Debt at December 31

	Governmental Activities	
	2018	2017
General Obligation Bonds	\$ 2,013,454	\$ 2,426,601
Special Assessment Bonds	746,545	1,118,398
Bond Anticipation Notes	2,357,154	4,008,942
OPWC Loans	3,130,774	3,199,701
Total Outstanding Debt	\$ 8,247,927	\$ 10,753,642

City of Highland Heights, Ohio

Management's Discussion and Analysis (Unaudited) (continued) For the Year Ended December 31, 2018

The City paid \$413,147 on principal for general obligation bonds, \$371,853 on principal for special assessment bonds, and \$237,485 on principal for OPWC loans. The majority of projects funded through long term debt deal directly with infrastructure improvements. All OPWC loans are at a zero percent interest rate.

The City's general obligation bond rating continues to carry an Aa2 rating, assigned by Moody's Investor Services rating agency to the City's debt since 2001, which was reaffirmed on October 5, 2011. The State limits the amount of general obligation debt that cities can issue to 5.50 percent of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is well below the state-imposed limit.

Other obligations include accrued vacation and sick leave and unamortized bond premium. More detailed information about the City's long-term liabilities is presented in Note 14 to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joseph G. Filippo, CPA, Finance Director, at 5827 Highland Road, Highland Heights, Ohio 44143.

City of Highland Heights, Ohio

Statement of Net Position December 31, 2018

	Governmental Activities
ASSETS	
Equity in Pooled Cash and Cash Equivalents	\$ 15,487,855
Materials and Supplies Inventory	258,775
Accounts Receivable	120,562
Accrued Interest Receivable	36,810
Intergovernmental Receivable	404,038
Prepaid Items	178,034
Municipal Income Taxes Receivable	3,526,140
Property Taxes Receivable	1,422,503
Special Assessments Receivable	593,382
Nondepreciable Capital Assets	1,679,660
Depreciable Capital Assets	40,854,620
Total Assets	64,562,379
DEFERRED OUTFLOWS OF RESOURCES	
Deferral on Refunding	36,840
Pension	2,479,104
OPEB	1,337,571
Total Deferred Outflows of Resources	3,853,515
LIABILITIES	
Accounts Payable	194,295
Accrued Wages and Benefits	170,492
Intergovernmental Payable	103,443
Accrued Interest Payable	49,330
Notes Payable	651,979
Long-term Liabilities:	
Due within One Year	4,035,613
Due in More than One Year:	
Net Pension Liability (see Note 11)	13,494,884
Net OPEB Liability (see Note 12)	11,676,233
Other Amounts	5,831,752
Total Liabilities	36,208,021
DEFERRED INFLOWS OF RESOURCES	
Property Tax	1,377,981
Pension	1,501,765
OPEB	271,195
Total Deferred Inflows of Resources	3,150,941
NET POSITION	
Net Investment in Capital Assets	34,217,338
Restricted for:	
Debt Service	667,885
Capital Projects	3,152,214
Street Construction, Maintenance, and Repairs	1,120,494
Other Purposes	1,139,443
Unrestricted	(11,240,442)
Total Net Position	\$ 29,056,932

The notes to the basic financial statements are integral part of this statement

City of Highland Heights, Ohio
Statement of Activities
For the Year Ended December 31, 2018

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total
Primary Government:					
Governmental activities:					
Security of Persons and Property	\$ 9,270,447	\$ 529,849	\$ 46,338	\$ -	\$ (8,694,260)
Public Health Services	45,254	-	-	-	(45,254)
Leisure Time Activities	1,055,761	248,684	-	-	(807,077)
Community Environment	136,017	283,091	-	370,086	517,160
Basic Utility Services	3,239,329	-	-	-	(3,239,329)
Transportation	2,728,410	438,720	442,088	-	(1,847,602)
General Government	3,320,733	616,319	-	-	(2,704,414)
Interest and Fiscal Charges	191,010	-	-	-	(191,010)
Total Governmental activities	\$ 19,986,961	\$ 2,116,663	\$ 488,426	370,086	(17,011,786)
General Revenues:					
Property Taxes levied for:					
General Purposes					746,288
Debt Service Purpose					146,328
Other Purposes					542,758
Municipal Income Taxes levied for:					
General Purposes					12,274,321
Debt Service Purpose					995,215
Other Taxes					45,475
Grants & Entitlements not restricted to specific programs					258,151
Investment Income					151,133
Gain on Sale of Capital Assets					21,717
All Other Revenues					61,770
Total General Revenues					<u>15,243,156</u>
Change in Net Position					(1,768,630)
Net Position- Beginning of Year, Restated					<u>30,825,562</u>
Net Position - End of Year					<u><u>\$ 29,056,932</u></u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Balance Sheet – Governmental Funds December 31, 2018

	General Fund	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
ASSETS					
Equity in Pooled Cash and Cash Equivalents	\$ 9,395,146	\$ 477,251	\$ 3,078,764	\$ 2,536,694	\$ 15,487,855
Materials and Supplies Inventory	25,020	-	-	233,755	258,775
Accrued Interest Receivable	36,810	-	-	-	36,810
Accounts Receivable	120,562	-	-	-	120,562
Intergovernmental Receivable	81,990	4,487	75,000	242,561	404,038
Prepaid Items	178,034	-	-	-	178,034
Municipal Income Taxes Receivable	3,261,680	264,460	-	-	3,526,140
Property Taxes Receivable	783,128	72,094	-	567,281	1,422,503
Special Assessments Receivable	3,408	-	-	589,974	593,382
Total Assets	13,885,778	818,292	3,153,764	4,170,265	22,028,099
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 82,281	\$ -	\$ 58,700	\$ 53,314	\$ 194,295
Accrued Wages and Benefits	155,895	-	-	14,597	170,492
Intergovernmental Payable	35,872	-	-	67,571	103,443
Accrued Interest Payable	-	9,931	-	-	9,931
Notes Payable	-	651,979	-	-	651,979
Total Liabilities	274,048	661,910	58,700	135,482	1,130,140
 Deferred Inflows of Resources:					
Property Tax	757,891	68,899	-	551,191	1,377,981
Unavailable Revenue - Delinquent Property Tax	22,123	2,011	-	16,090	40,224
Unavailable Revenue - Income Tax	1,046,742	84,870	-	-	1,131,612
Unavailable Revenue - Other	131,917	4,487	-	720,313	856,717
Total Deferred Inflows of Resources	1,958,673	160,267	-	1,287,594	3,406,534
 Fund Balances:					
Nonspendable	203,054	-	-	233,755	436,809
Restricted	-	-	-	2,464,755	2,464,755
Committed	-	-	3,095,064	48,679	3,143,743
Assigned	2,045,220	-	-	-	2,045,220
Unassigned (Deficit)	9,404,783	(3,885)	-	-	9,400,898
Total Fund Balances	11,653,057	(3,885)	3,095,064	2,747,189	17,491,425
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 13,885,778	\$ 818,292	\$ 3,153,764	\$ 4,170,265	\$ 22,028,099

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities December 31, 2018

Total Governmental Funds Balance \$ 17,491,425

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Capital Assets used in Governmental Activities are not financial resources and, therefore, are not reported in the funds 42,534,280

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable revenues in the funds:

Delinquent Property taxes	\$	40,224	
Municipal income taxes		1,131,612	
Special assessments		553,663	
Intergovernmental		245,215	
Charges for services		57,839	
Total			2,028,553

In the Statement of Activities, interest is accrued on outstanding bonds, whereas in Governmental funds, an interest expenditure is reported when due. (39,399)

The net pension/OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension		2,479,104	
Deferred Inflows - Pension		(1,501,765)	
Net Pension Liability		(13,494,884)	
Deferred Outflows- OPEB		1,337,571	
Deferred Inflows-OPEB		(271,195)	
Net OPEB Liability		(11,676,233)	
Total			(23,127,402)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds		(2,013,454)	
Special assessment bonds		(746,545)	
Unamortized bond premiums		(113,009)	
Deferral of loss on refunding		36,840	
OPWC Loan		(3,130,774)	
Compensated absences		(1,513,583)	
Bond anticipation notes		(2,350,000)	
Total			(9,830,525)

Net Position of Governmental Activities \$ 29,056,932

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds For the Year Ended December 31, 2018

	General Fund	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 756,225	\$ 147,232	\$ -	\$ 549,985	\$ 1,453,442
Municipal Income Taxes	12,161,606	986,077	-	-	13,147,683
Other Taxes	-	22,417	-	23,058	45,475
Intergovernmental	175,195	8,975	75,000	559,637	818,807
Interest	38,535	-	112,561	37	151,133
Fees, Licenses, and Permits	481,122	-	-	-	481,122
Fines and Forfeitures	-	-	-	776	776
Charges for Services	594,182	-	60,075	253,784	908,041
Contributions and Donations	10,401	-	-	-	10,401
Special Assessments	3,656	-	-	1,022,945	1,026,601
All Other Revenues	334,502	-	26,917	41,433	402,852
Total Revenues	14,555,424	1,164,701	274,553	2,451,655	18,446,333
EXPENDITURES					
Security of Persons and Property	6,689,715	-	162,436	862,524	7,714,675
Public Health Services	45,254	-	-	-	45,254
Leisure Time Activities	53,329	-	78,404	682,736	814,469
Community Environment	112,095	-	-	12,290	124,385
Basic Utility Services	2,221,366	-	57,560	-	2,278,926
Transportation	-	-	1,608,414	641,179	2,249,593
General Government	2,448,714	49,936	571,475	13,809	3,083,934
Capital Outlay	-	-	576,650	143,680	720,330
Debt Service:					
Principal Retirement	-	4,396,246	-	626,239	5,022,485
Interest and Fiscal Charges	-	118,603	-	110,728	229,331
Total Expenditures	11,570,473	4,564,785	3,054,939	3,093,185	22,283,382
Excess of Revenues (Under) Expenditures	2,984,951	(3,400,084)	(2,780,386)	(641,530)	(3,837,049)
OTHER FINANCING SOURCES (USES)					
Sale of Capital Assets	7,230	-	-	14,487	21,717
Issuance of Bond Anticipation Notes	-	2,350,000	-	-	2,350,000
OPWC Loans Issued	-	-	168,558	-	168,558
Premium on Debt Issuance	-	16,097	-	-	16,097
Transfers In	-	-	2,000,000	745,000	2,745,000
Transfers Out	(2,745,000)	-	-	-	(2,745,000)
Total Other Financing Sources (Uses)	(2,737,770)	2,366,097	2,168,558	759,487	2,556,372
Net Change in Fund Balances	247,181	(1,033,987)	(611,828)	117,957	(1,280,677)
Fund Balances - Beginning of Year	11,417,098	1,030,102	3,706,892	2,462,242	18,616,334
Increase (Decrease) in Inventory	(11,222)	-	-	166,990	155,768
Fund Balances - End of Year	\$ 11,653,057	\$ (3,885)	\$ 3,095,064	\$ 2,747,189	\$ 17,491,425

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities- For the Year Ended December 31, 2018

Net Change in Fund Balances-Total Governmental Funds (1,280,677)

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.

Capital Outlay	720,330	
Depreciation	(2,060,484)	
Total		(1,340,154)

In the Statement of Activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets. (14,714)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent property taxes	(18,068)	
Municipal income taxes	121,853	
Special assessments	(345,806)	
Intergovernmental	2,770	
Charges for services	(10,468)	
Total		(249,719)

Other financing sources in the Governmental funds increase long-term liabilities in the Statement of Net Position. These sources were attributed to the issuance of loans, notes, and premiums. (2,534,655)

Repayment of debt principal expenditures in the Governmental funds but the repayment reduces long-term liabilities in the Statement of Net Position. 5,022,485

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows

Pension	1,199,477	
OPEB	24,998	
Total		1,224,475

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.

Pension	(1,864,787)	
OPEB	(966,194)	
Total		(2,830,981)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in Governmental funds.

Compensated absences	41,221	
Accrued interest on bonds	16,207	
Amortization of bond premiums	34,394	
Amortization of loss on refunding	(12,280)	
Change in inventory	155,768	
Total		235,310

Change in Net Position of Governmental Activities (1,768,630)

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual – General Fund For the Year Ended December 31, 2018

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<u>Revenues</u>				
Property Taxes	\$ 690,889	\$ 756,600	\$ 756,225	\$ (375)
Municipal Income Taxes	11,119,311	12,176,876	12,170,839	(6,037)
Intergovernmental	160,128	175,358	175,271	(87)
Interest	48,262	52,852	52,826	(26)
Fees, Licenses, and Permits	452,199	495,208	494,962	(246)
Charges for Services	520,426	569,925	569,642	(283)
Contributions and Donations	9,502	10,406	10,401	(5)
Special Assessments	3,340	3,658	3,656	(2)
All Other Revenues	311,613	341,251	341,082	(169)
Total Revenues	13,315,671	14,582,134	14,574,904	(7,230)
<u>Expenditures</u>				
Current:				
Security of Persons & Property	7,167,437	7,183,937	6,699,183	484,754
Public Health Services	49,611	52,111	46,890	5,221
Leisure Time Activities	57,742	68,143	62,929	5,214
Community Environment	143,775	145,775	113,627	32,148
Basic Utility Services	2,508,700	2,527,200	2,248,958	278,242
General Government	2,851,231	2,848,731	2,456,466	392,265
Total Expenditures	12,778,496	12,825,897	11,628,053	1,197,844
Excess of Revenues Over (Under) Expenditures	537,175	1,756,237	2,946,851	1,190,614
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	-	-	7,230	7,230
Transfers Out	(2,110,000)	(2,768,530)	(2,745,000)	23,530
Total Other Financings Sources (Uses)	(2,110,000)	(2,768,530)	(2,737,770)	30,760
Net Change in Fund Balance	(1,572,825)	(1,012,293)	209,081	1,221,374
Fund Balance - Beginning of Year	8,995,711	8,995,711	8,995,711	-
Prior Year Encumbrances Appropriated	170,691	170,691	170,691	-
Fund Balance - End of Year	\$ 7,593,577	\$ 8,154,109	\$ 9,375,483	\$ 1,221,374

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Statement of Fiduciary Net Position

Fiduciary Funds

December 31, 2018

	Agency Funds
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 254,239
Total Assets	<u>\$ 254,239</u>
Liabilities	
Deposits Held and Due to Others	<u>254,239</u>
Total Liabilities	<u>\$ 254,239</u>

The notes to the basic financial statements are an integral part of this statement

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 1: **REPORTING ENTITY**

The City of Highland Heights, Ohio (the City) was incorporated as a Village in 1920 after it separated from Mayfield Township. In October 1966, the electors of Highland Heights approved a charter that established home rule under a Council-Mayor form of government. In 1969, Highland Heights became a City upon attaining a population of 5,000.

The City, in order to provide the necessary services to its citizens, is segmented into many different departments. Among these are the police, fire fighting, street maintenance, planning and zoning, emergency medical technicians, parks and recreation system, public improvements department, and general administrative staff to provide support to these service groups. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures. All are responsible to the citizens of the City and are included as part of the primary government.

A legally separate organization is a component unit of the primary government if **1)** the primary government is financially accountable for the organization; **2)** the nature and significance of the relationship between the primary government and the organization are such that exclusion would cause the reporting entity's basic financial statements to be misleading or incomplete; or **3)** the organization is closely related to or financially integrated with the primary government. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. The Mayfield City School District is located partially within the City's boundaries, but is excluded from the City's financial statements based on the above criteria. The City has no component units.

The City is associated with four organizations which are defined as jointly governed organizations. The jointly governed organizations are Community Partnership on Aging Council of Governments, the Eastern Suburban Regional Council of Governments, the Northeast Ohio Public Energy Council, and the Mayfield Union Cemetery as presented in Note 18 to the basic financial statements. The City is also associated with Northern Ohio Risk Management Association which is defined as a risk sharing pool as presented in Note 15.

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

The more significant of the City's accounting policies are described below.

A. **Basis of Presentation**

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position presents the financial condition of the governmental activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods and services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. **Fund Accounting**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds the City utilizes: governmental and fiduciary.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. **Fund Accounting** (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources compared to liabilities and deferred inflows of resources are reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the Charter of the City and/or the general laws of Ohio.

General Bond Retirement Fund – The General Bond Retirement Fund accounts for and reports restricted taxes for the payment of principal and interest and fiscal charges on debt.

Capital Improvement Fund – The Capital Improvement Fund accounts for different resources that are used to construct, equip and furnish the capital assets used by the various departments of the City, as well as for various infrastructure projects.

The other governmental funds of the City account for grants and other resources whose use is restricted or committed to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investments trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for deposits held for contractors and developers.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

C. **Measurement Focus**

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources along with current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Government fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting; fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflow/inflows, and the presentation of expenses versus expenditures.

Revenues – Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, of which the City receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the exchange on which the tax is imposed takes place. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

Deferred Outflows/Inflows of Resources - In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the City, deferred outflows of resources include a deferral on refunding, pension and OPEB reported in the government-wide statement of net position. A deferral on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Note 11 and Note 12.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes, pension and OPEB, and unavailable revenues. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2018, but which were levied to finance year 2019 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes, municipal income taxes, intergovernmental grants, special assessments, and charges for services. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Note 11 and Note 12).

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Equity in Pooled Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During 2018, The City's investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), negotiable certificates of deposits, a money market mutual fund, U.S. Treasury Securities, and municipal bonds. The City's investment in State Treasury Asset Reserve of Ohio (STAR Ohio) is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company and is recognized as an external investment pool by the City. The city measures their investment in STAR Ohio as the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

E. **Equity in Pooled Cash and Investments** (Continued)

For 2018, there were no limitation or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2018 amounted to \$38,535.

F. **Materials and Supplies Inventory**

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first in, first out basis. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

Inventory consists of expendable supplies held for consumption.

G. **Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2018, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. **Capital Assets**

The City's only capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities' column of the government-wide statement of net position but are not reported in the fund financial statements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The City maintains a capitalization threshold of \$7,500. The City's infrastructure consists of roads, water mains, sanitary sewers, storm sewers, culverts, bridges, and traffic signals. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is not capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvement	20 - 40 years
Machinery and Equipment	5 - 20 years
Furniture and Fixtures	15 years
Vehicles	4 - 8 years
Infrastructure	50 years

I. Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "Interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. **Compensated Absences** (Continued)

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee wage rates at year-end, taking into consideration any limits specified in the City's termination policy.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund or funds which the employees who have accumulated the leave are paid.

K. **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

L. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance (Continued)

The classifications are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are not spendable in form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance) of the City’s Council. Those committed amounts cannot be used for any other purpose unless the City’s Council removes or changes the specified use by taking the same type of action (ordinance) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by City Council.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In the other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

M. Net Position

Net Position is the residual amount when comparing assets and deferred outflows of resources to liabilities and deferred inflows of resources. Net investments in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2018.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. **Budgetary Data**

An annual budget is prepared for all funds of the City. The City's budgetary process, which is governed by State law, is described below:

Tax Budget - The City must submit a budget of estimated cash receipts and disbursements for all funds to the County Budget Commission by July 20 of each year for the following calendar year.

Estimated Resources - The County Budget Commission certifies its actions to the City by September 1 and issues a "Certificate of Estimated Resources" limiting the maximum amount the City may appropriate from a given fund during the year.

On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. The City must prepare its appropriations so that the total appropriations from each fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources.

Appropriations - A temporary appropriation ordinance may be passed to control expenditures for the period January 1 through March 31. Before April 1, an annual appropriation ordinance must be passed for the period January 1 to December 31. The appropriation ordinance, which controls expenditures at the major object level, may be amended or supplemented by Council during the year as required. The major object level is further defined by grouping level. The administration may move budgeted amounts within each object grouping level. During 2018, there were few amendments to the appropriations. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Budgeted Level of Expenditure - Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, Council appropriations are made by department and major object levels, which include salaries and fringe benefits, other expenditures, which include materials and supplies and purchased services, capital outlay, and transfers, along with individual accounts for bond and note principal retirement, and interest and fiscal charges.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 2: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Q. **Budgetary Data** (Continued)

Encumbrances - Encumbrances outstanding at year end represent the estimated amount of expenditures that will ultimately result if unperformed contracts in process (for example, purchase orders and contracted services) are completed. Encumbrances outstanding at year end are reported as restricted, committed, and assigned fund balances for subsequent year expenditures in the governmental funds.

Lapsing of Appropriations - At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

R. **Pensions/Other Postemployment Benefits (OPEB)**

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION**

During the year, the City has implemented the following Governmental Accounting Standards Board (GASB) Statements:

GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. These changes were incorporated in the City's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 3: **CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION** (Continued)

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of the Statement is to establish standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported December 31, 2017:

	Governmental Activities
Net Position December 31, 2017	\$ 40,494,223
Adjustments:	
Net OPEB liability	(9,718,930)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>50,269</u>
Restated Net Position December 31, 2017	<u>\$ 30,825,562</u>

Other than employer contributions subsequent to the measurement date, the City made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements were not available.

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING**

While the City is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual presented for the General Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

- a. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- b. Expenditures are recorded when paid in cash (budget basis) as opposed to when the related liabilities are incurred (GAAP basis);
- c. Encumbrances are treated as expenditures (budget basis) rather than as a restricted, committed, and assigned fund balance (GAAP basis);
- d. Advances-in and Advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and
- e. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 4: **BUDGETARY BASIS OF ACCOUNTING** (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statement for the General Fund.

	Net Change in Fund Balance
GAAP Basis	\$ 247,181
Increase (Decrease) Due to:	
Revenue Accruals	19,480
Expenditure Accruals	18,401
Adjustment for Encumbrances	(75,981)
Budgetary Basis	<u>\$ 209,081</u>

NOTE 5: **DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or securities issued by any Federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of Federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provide that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
2. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

A. **Cash on Hand**

At December 31, 2018, the City had \$700 in undeposited cash on hand, which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Investments".

B. **Deposits**

At December 31, 2018, the carrying amount of all City deposits was \$6,338,779. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2018, \$5,796,202 of the City's bank balance of \$6,546,202 was exposed to custodial risk as discussed below, while \$750,000 was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by:

Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

B. **Deposits** (Continued)

The City's financial institutions joined OPCS as of December 31, 2018. Two of the City's financial institutions were approved for reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

C. **Investments**

The City has a formal investment policy and utilizes a pooled investment concept for all its funds to maximize its investment program. STAR Ohio and the Victory Federal Money Market Mutual Fund are measured at net asset value per share while all other investments are measured at fair value. Fair value is determined by quoted market prices and acceptable other pricing methodologies. The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The table on the next page identifies the City's recurring measurement values and level inputs as of December 31, 2018. As previously discussed, Star Ohio and the Victory Federal Money Market Mutual Fund are reported at their net asset value. The City's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs). As of December 31, 2018, fair value was \$56,321 below the City's net cost for investments.

D. **Interest Rate Risk**

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 5: **DEPOSITS AND INVESTMENTS** (Continued)

E. Credit Risk

The credit risks of the City’s investments are in the table below. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The City has no investment policy that would further limit its investment choices.

F. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreement is exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent but not in the City’s name. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee. The City’s investment in negotiable certificates of deposit were fully insured by Federal depository insurance.

G. Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City’s investment in negotiable certificates of deposit represents 58.0 percent of the City’s total investments. The remaining investments of the City, STAR Ohio, municipal bond, money market mutual fund, and U.S. Treasury represent 7.7 percent, 18.2 percent, 5.3 percent, and 10.8 percent, respectively, of the City’s total investments.

Cash and investments at year-end were as follows:

Cash and Investment Type	Measurement Value	Credit Rating (*)	Level Input	Investment Maturity (in years)	
				<1	1-2
STAR Ohio	\$ 723,881	AAAm	N/A	\$ 723,881	\$ -
Negotiable CD's	5,451,931	N/A	2	2,990,805	2,461,126
Municipal Bond	1,708,280	N/A	2	1,047,527	660,753
Victory Federal Money Market Mutual Fund	502,700	AAA	N/A	502,700	-
U.S. Treasury	1,015,823	N/A	2	1,015,823	-
Total Investments	9,402,615			\$ 6,280,736	\$ 3,121,879
Carrying Amount of Deposits	6,338,779				
Petty Cash	700				
Total Cash and Investments	\$ 15,742,094				

* Credit rating was obtained from Standard & Poor’s for all investments.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 6: RECEIVABLES

Receivables at December 31, 2018, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, accrued interest on investments, and accounts (billing for rental and permits, etc.). No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2018 for real and public property taxes represents collections of 2017 taxes. Property tax payments received during 2018 for tangible personal property (other than public utility property) are for 2018 taxes.

2018 real property taxes are levied after October 1, 2018, on the assessed value as of January 1, 2019, the lien date. Assessed values are established by the State law at 35 percent of appraised market values. 2018 real property taxes are collected in and intended to finance 2019.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2018 public utility property taxes which became a lien at December 31, 2017, are levied after October 1, 2018, and are collected in 2019 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2018, was \$4.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2018 property tax receipts were based are as follows:

Real Property	\$393,362,180
Public Utility Tangible Property	<u>4,167,150</u>
Total	<u>\$397,529,330</u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due by September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable at September 20.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 6: **RECEIVABLES** (Continued)

A. **Property Taxes** (Continued)

The County's Fiscal Officer collects property taxes on behalf of all taxing districts within the County, including the City of Highland Heights. The County's Fiscal Officer periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes, and outstanding delinquencies which are measurable as of December 31, 2018, and for which there is an enforceable legal claim. In the General, General Obligation Bond Retirement, Police Pension nonmajor special revenue fund, Fire Pension nonmajor special revenue fund, Parks and Recreation nonmajor special revenue fund, the entire receivable has been offset by deferred outflows of resources since the current taxes were not levied to finance 2018 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

B. **Municipal Income Taxes**

Effective January 1, 2007, an income tax of 2.0 percent is levied on substantially all income earned within the City. In addition, residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to 100 percent of the City's current tax rate. The allocation of income tax revenue to the City's various funds is determined by City Ordinance.

Employers within the City are required to withhold income tax on employee compensation and remit this tax to the City's collection agency at least quarterly. Major employers are required to remit withholdings to the City's collection agency at least monthly. Corporations and self-employed individual taxpayers are required to pay estimated taxes quarterly and file a declaration annually. The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly, net of collection fees of 3 percent.

C. **Special Assessments**

Special assessments include annually assessed service assessments and assessments for debt obligations. Service type special assessments are levied against all property owners which benefit from the provided service while special assessments for debt obligations are levied against specific property owners who primarily benefitted from the project.

Special assessments are payable by the timetable and in the manner stipulated in the assessing ordinance and are a lien from the date of the passage of the ordinance.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 6: **RECEIVABLES** (Continued)

C. **Special Assessments** (Continued)

The City's service assessments include street lighting, sidewalk repair, sewer maintenance, and sewer rehabilitation which are billed and collected by the County's Fiscal Officer. The County's Fiscal Officer periodically remits these collections to the City. Special assessments collected in one calendar year are levied and certified in the preceding calendar year. Since all assessment collections are remitted to the City outside of the available period, the entire amount has been deferred on the combined balance sheet.

At December 31, 2018, special assessments expected to be collected in more than one year amount to \$593,382 including delinquent special assessments of \$280,561.

D. **Other Local Taxes**

With certain exceptions, a tax of 3 percent is levied by the City on individuals, companies and organizations which collect an admission charge and is reported in the General Obligation Bond Retirement nonmajor debt service fund.

E. **Intergovernmental Receivables**

A summary of the principal items of intergovernmental receivables follows:

<u>Governmental Funds</u>	<u>Amount</u>
Gasoline Tax	\$ 163,974
Local Government	32,627
Homestead and Rollback Reimbursement	89,750
Auto Registration	33,367
Permissive Tax	5,745
Miscellaneous Grants	<u>78,575</u>
Total Intergovernmental Receivables	<u>\$ 404,038</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 7: FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	General Bond Retirement	Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepaid Items	\$ 178,034	\$ -	\$ -	\$ -	\$ 178,034
Inventories	25,020	-	-	233,755	258,775
<i>Total Nonspendable</i>	<u>203,054</u>	<u>-</u>	<u>-</u>	<u>233,755</u>	<u>436,809</u>
<i>Restricted for</i>					
Police Pension	-	-	-	176,527	176,527
Fire Pension	-	-	-	164,591	164,591
Parks and Recreation	-	-	-	606,810	606,810
Other Law Enforcement	-	-	-	74,823	74,823
Streets and Highways	-	-	-	799,965	799,965
Street Lighting	-	-	-	246,013	246,013
FEMA Fire Assistance	-	-	-	14,482	14,482
NOPEC POC Grant	-	-	-	2,001	2,001
Other Grants	-	-	-	836	836
Debt Service	-	-	-	351,809	351,809
Issue II	-	-	-	26,898	26,898
<i>Total Restricted</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,464,755</u>	<u>2,464,755</u>
<i>Committed to</i>					
Capital Improvements	-	-	3,095,064	-	3,095,064
Parks and Recreation Improvements	-	-	-	30,252	30,252
Street Trees	-	-	-	18,427	18,427
<i>Total Committed</i>	<u>-</u>	<u>-</u>	<u>3,095,064</u>	<u>48,679</u>	<u>3,143,743</u>
<i>Assigned to</i>					
Purchases on Order	-	-	-	-	-
Basic Utility	20,025	-	-	-	20,025
Community Environment	1,237	-	-	-	1,237
General Government	10,814	-	-	-	10,814
Leisure Time Activities	9,600	-	-	-	9,600
Public Health	1,079	-	-	-	1,079
Security of Persons and Property	14,670	-	-	-	14,670
Fiscal Year 2019 Appropriations	1,987,795	-	-	-	1,987,795
<i>Total Assigned</i>	<u>2,045,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,045,220</u>
<i>Unassigned</i>	9,404,783	(3,885)	-	-	9,400,898
Total Fund Balances	<u>\$ 11,653,057</u>	<u>\$ (3,885)</u>	<u>\$ 3,095,064</u>	<u>\$ 2,747,189</u>	<u>\$ 17,491,425</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 8: INTERFUND TRANSFERS

Transfers made during the year end December 31, 2018 were as follow:

<u>Transfers Out</u>	<u>Transfers In</u>		<u>Total</u>
	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	
General	<u>\$ 2,000,000</u>	<u>\$ 745,000</u>	<u>\$ 2,745,000</u>
Total	<u>\$ 2,000,000</u>	<u>\$ 745,000</u>	<u>\$ 2,745,000</u>

The General Fund transferred \$305,000 to the Police Pension Fund and \$305,000 to the Fire Pension Fund for pension obligation payments. In addition, the General Fund transferred \$2,000,000 to the Capital Improvement Fund and \$135,000 to the Park Land Acquisition Fund for the purposes of capital improvement purchases.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 9: CAPITAL ASSETS

A summary of changes in capital assets during 2018 follows:

	Balance 12/31/2017	Additions	Disposals	Balance 12/31/2018
<u>Governmental Activities</u>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,679,660	\$ -	\$ -	\$ 1,679,660
Construction in Progress	3,174,781	293,310	(3,468,091)	-
Total Capital Assets Not Being Depreciated	4,854,441	293,310	(3,468,091)	1,679,660
<i>Capital Assets, being depreciated:</i>				
Land Improvements	2,289,092	-	-	2,289,092
Buildings	7,622,288	16,630	-	7,638,918
Machinery and Equipments	2,469,329	209,894	(197,817)	2,481,406
Furniture and Fixtures	61,416	-	-	61,416
Vehicles	3,217,886	200,496	(46,630)	3,371,752
Infrastructures				
Roads	26,353,693	913,090	(125,979)	27,140,804
Water Mains	11,453,908	2,555,001	(268,957)	13,739,952
Sanitary Sewers	13,440,785	-	-	13,440,785
Storm Sewers	15,992,277	-	-	15,992,277
Culverts	222,342	-	-	222,342
Bridges	216,549	-	-	216,549
Traffic Signals	84,068	-	-	84,068
Totals at Historical Cost	83,423,633	3,895,111	(639,383)	86,679,361
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(1,456,793)	(136,561)	-	(1,593,354)
Buildings	(5,334,744)	(215,651)	-	(5,550,395)
Machinery and Equipments	(1,571,562)	(135,948)	185,434	(1,522,076)
Furniture and Fixtures	(46,706)	(1,448)	-	(48,154)
Vehicles	(1,852,714)	(286,675)	44,299	(2,095,090)
Infrastructures				
Roads	(11,639,758)	(486,152)	125,979	(11,999,931)
Water Mains	(6,689,194)	(240,346)	268,957	(6,660,583)
Sanitary Sewers	(6,753,773)	(249,866)	-	(7,003,639)
Storm Sewers	(8,780,671)	(298,562)	-	(9,079,233)
Culverts	(126,931)	(3,867)	-	(130,798)
Bridges	(73,627)	(4,331)	-	(77,958)
Traffic Signals	(62,453)	(1,077)	-	(63,530)
Total Accumulated Depreciation	(44,388,926)	(2,060,484) *	624,669	(45,824,741)
<i>Total Capital Assets, being Depreciated, Net</i>	39,034,707	1,834,627	(14,714)	40,854,620
Governmental Activities Capital Assets, Net	\$ 43,889,148	\$ 2,127,937	\$ (3,482,805)	\$ 42,534,280

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 9: CAPITAL ASSETS (Continued)

*Depreciation expense was charged to governmental functions as follows:

General Government	\$ 95,677
Security of Persons and Property	321,797
Basic Utilities	792,641
Leisure Time Activities	203,255
Transportation	647,114
Total Depreciation Expense	<u><u>\$ 2,060,484</u></u>

NOTE 10: COMPENSATED ABSENCES

Sick leave for City employees is accrued at the rate of 4.6 hours for every 80 hours worked. Employees who retire or terminate service after 20 years may convert 50 percent of accumulated sick leave days into a lump sum payment, within certain limitations. A maximum of 960 hours of sick leave may be converted by each employee, with the exception of firemen, who can convert 1,345 hours.

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy does not permit vacation leave to be carried forward unless authorized by the Mayor or department head. City employees are paid for earned unused vacation leave at the time of termination of employment.

NOTE 11: PENSION PLAN

A. Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the City's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

A. **Net Pension Liability** (Continued)

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

B. **Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - City employees, other than full-time police and firefighters, participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. City employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS’ fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS’ CAFR referenced above for additional information):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average Salary (FAS) represents the average of the three highest years of earnings over a member’s career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member’s career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

B. Plan Description – Ohio Public Employees Retirement System (OPERS) (Continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	<u>State and Local</u>
2018 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2018 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	<u>0.0</u>
Total Employer	<u>14.0 %</u>
Employee	<u>10.0 %</u>

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contributions was \$385,270 for 2018. Of this amount, \$38,748 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)**

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

C. Plan Description – Ohio Police & Fire Pension Fund (OP&F) (Continued)

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25	12.25
 2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
 Total Employer	 19.50 %	 24.00 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$814,207 for 2018. Of this amount, \$64,695 is reported as intergovernmental payable.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	OPERS Traditional Pension Plan	OP&F Police	OP&F Fire	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.019893%	0.0807100%	0.0822870%	
Proportion of the Net Pension Liability Current Measurement Date	0.020274%	0.083219%	0.0848360%	
Change in Proportionate Share	0.000381%	0.002509%	0.002549%	
Proportionate Share of the Net Pension Liability	\$ 3,180,598	\$ 5,107,541	\$ 5,206,745	\$ 13,494,884
Pension Expense	\$ 681,852	\$ 571,444	\$ 611,491	\$ 1,864,787

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>OP&F Police</u>	<u>OP&F Fire</u>	<u>Total</u>
Deferred Outflows of Resources				
Changes of assumptions	\$ 380,101	\$ 222,562	\$ 226,885	\$ 829,548
Differences between expected and actual experience	3,248	77,510	79,014	159,772
Changes in proportion and differences between City contributions and proportionate share of contributions	39,238	115,803	135,266	290,307
City contributions subsequent to the measurement date	<u>385,270</u>	<u>406,149</u>	<u>408,058</u>	<u>1,199,477</u>
Total Deferred Outflows of Resources	<u>\$807,857</u>	<u>\$822,024</u>	<u>\$849,223</u>	<u>\$2,479,104</u>
Deferred Inflows of Resources				
Net difference between projected and actual earnings on pension plan investments	\$ 682,832	\$ 176,680	\$ 180,111	\$ 1,039,623
Differences between expected and actual experience	62,679	9,241	9,418	81,338
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>19,420</u>	<u>210,784</u>	<u>150,600</u>	<u>380,804</u>
Total Deferred Inflows of Resources	<u>\$ 764,931</u>	<u>\$ 396,705</u>	<u>\$ 340,129</u>	<u>\$ 1,501,765</u>

\$1,199,477 reported as deferred outflows of resources related to pension resulting from City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS	OP&F Police	OP&F Fire	Total
Year Ending December 31:				
2019	\$ 287,031	\$ 90,858	\$ 121,571	\$ 499,460
2020	(48,105)	44,406	74,218	70,519
2021	(300,685)	(138,592)	(112,340)	(551,617)
2022	(280,585)	(73,447)	(80,036)	(434,068)
2023	-	76,955	78,025	154,980
Thereafter	-	18,990	19,598	38,588
Total	\$ (342,344)	\$ 19,170	\$ 101,036	\$ (222,138)

E. Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all prior periods included in the measurement in accordance with the requirements of GASB 67.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 to 10.75 percent including wage inflation Pre 1/7/2013 retirees; 3 percent, simple Post 1/7/2013 retirees; 3 percent, simple through 2018, then 2.15 percent simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2014 Health Annuitant Mortality table. For males, Health Annuitant Mortality tables were used, adjusted for mortality improvement back to the observant period base of 2006 and then established the base year as 2015. For females, Health Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for a five year period ending December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

OPERS manages investments in investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money weighted rate of return expressing investment performance, net of investments expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 16.82 percent for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	<u>100.00 %</u>	<u>5.66 %</u>

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the City’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$5,647,931	\$3,180,598	\$1,123,585

Changes Between Measurement Date and Report Date

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 7.50 percent to 7.20 percent. Although the exact amount of these changes is not known, it has the potential to impact the City’s net pension liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F**

OP&F's total pension liability as of December 31, 2017 is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2017, are presented below:

Valuation Date	January 1, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.00 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Increases	3.25 percent
Inflation Assumptions	2.75 percent
Cost of Living Adjustments	2.20 percent and 3.00 percent

Mortality rates for active members were based on the RP2014 Total employee and Healthy Annuitant Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent. For disabled retirees, the mortality rates were based on the RP2014 Disabled Mortality Tables rolled back to 2006, and projected with the Conduent Modified 2016 Improvement Scale.

The most recent experience study was completed January 1, 2017.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: PENSION PLAN (Continued)

F. Actuarial Assumptions – OP&F (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash and Cash Equivalents	0.00%	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited	8.00	7.36
Total	<u>120.00 %</u>	

* levered 2x

** numbers are net of expected inflation

OP&F's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.00 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 11: **PENSION PLAN** (Continued)

F. **Actuarial Assumptions – OP&F** (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$14,298,316	10,314,286	\$7,064,960

NOTE 12: **DEFINED BENEFIT OPEB PLANS**

A. **Net OPEB Liability**

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability represents the City's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including OPEB.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

A. **Net OPEB Liability** (Continued)

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

B. **Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

B. **Plan Description – Ohio Public Employees Retirement System (OPERS)** (Continued)

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans.

The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$5,628 for 2018.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)**

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 75.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

C. **Plan Description – Ohio Police & Fire Pension Fund (OP&F)** (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2018, the portion of employer contributions allocated to health care was 0.5 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contractually required contribution to OP&F was \$19,370 for 2018.

D. **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.019620%	0.163000%	
Proportion of the Net OPEB Liability			
Current Measurement Date	0.019840%	0.168055%	
Change in Proportionate Share	0.000220%	0.005055%	
Proportionate Share of the Net OPEB			
Liability	\$ 2,154,479	\$ 9,521,754	\$ 11,676,233
OPEB Expense	\$ 191,164	\$ 775,030	\$ 966,194

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: Defined Benefit OPEB Plans (Continued)

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$ 1,679	\$ -	\$ 1,679
Changes of assumptions	156,869	929,121	1,085,990
Changes in proportion and differences between City contributions and proportionate share of contributions	15,509	209,395	224,904
City contributions subsequent to the measurement date	5,628	19,370	24,998
Total Deferred Outflows of Resources	\$179,685	\$1,157,886	\$1,337,571
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 48,024	\$ 48,024
Net difference between projected and actual earnings on OPEB plan investments	160,494	62,677	223,171
Total Deferred Inflows of Resources	\$160,494	\$110,701	\$271,195

\$24,998 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS	OP&F	Total
Year Ending December 31:			
2019	\$ 43,092	\$ 143,759	\$ 186,851
2020	43,092	143,759	186,851
2021	(32,499)	143,759	111,260
2022	(40,122)	143,758	103,636
2023	-	159,428	159,428
Thereafter	-	293,352	293,352
Total	\$13,563	\$1,027,815	\$1,041,378

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio.

The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
Real Estate Investment Trust	6.00	5.91
International Equities	22.00	7.88
Other investments	17.00	5.39
Total	100.00 %	4.98 %

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City’s proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	\$ 2,862,317	\$ 2,154,479	\$ 1,581,843

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

E. **Actuarial Assumptions – OPERS** (Continued)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 2,061,376	\$ 2,154,479	\$ 2,250,650

Changes Between Measurement Date and Report Date

In October 2018, the OPERS Board adopted certain assumption changes which will impact their valuation prepared as of January 1, 2018. The most significant change is a reduction in the assumed actuarial rate of return from 6.50 percent to 6.00 percent. Although the exact amount of these changes is not known, it has the potential to impact the City’s net OPEB liability.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F**

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

The long-term expected rate of return on OPEB plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2017, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00%
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected Securities*	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Real Assets	5.00	6.87
Master Limited Partnerships	8.00	7.36
 Total	 120.00 %	
Note: Assumptions are geometric		
*levered 2x		

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on the relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by state statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

The OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City’s proportionate share of the net OPEB liability	\$ 11,902,307	\$ 9,521,754	\$ 7,690,023

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
Year					
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 12: **DEFINED BENEFIT OPEB PLANS** (Continued)

F. **ACTUARIAL ASSUMPTIONS – OP&F** (Continued)

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	\$ 11,902,307	\$ 9,521,754	\$ 7,690,023

Changes between Measurement Date and Report Date

In March 2018, the OP&F Board of Trustees approved the implementation date and framework for a new health care model. Beginning January 1, 2019, the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses. The impact to the City's NOL is not known.

NOTE 13: **SHORT-TERM OBLIGATIONS**

The City's note activity, including the amount outstanding and the interest rate, is as follows:

	Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018
<u>Governmental Activities</u>				
<u>Bond Anticipation Notes</u>				
Various Purpose Street Improvement Anticipation Notes, Series 2018, 3,000,000, 2.75%	\$ -	\$ 650,000	\$ -	\$ 650,000
Unamortized Note Premium	-	\$ 4,453	(2,474)	\$ 1,979
<i>Total Bond Anticipation Notes</i>	\$ -	\$ 654,453	\$ (2,474)	\$ 651,979

On June 13, 2018, the City issued \$3,000,000 in Various Purpose Improvement Notes for an interest rate of 2.75%, maturing on June 13, 2019. The proceeds were used to retire the outstanding 2017 Various Purpose Improvement Notes. \$650,000 of these notes are considered short-term and the remaining \$2,350,000 are considered long-term.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 14: LONG-TERM OBLIGATIONS

Changes in the debt of the City for the year ended December 31, 2018, are as follows:

	Restated Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Amounts Due in One Year
<u>Governmental Activities</u>					
<u>Bond Anticipation Notes</u>					
Various Purpose Street Improvement Anticipation Notes, Series 2017, \$4,000,000, 1.75%	\$ 4,000,000	\$ -	\$ (4,000,000)	\$ -	\$ -
Unamortized Note Premium	8,942	-	(8,942)	-	-
Various Purpose Street Improvement Anticipation Notes, Series 2018, \$3,000,000, 2.75%	-	2,350,000	-	2,350,000	2,350,000
Unamortized Note Premium	-	16,097	(8,943)	7,154	-
Total Bond Anticipation Notes	4,008,942	2,366,097	(4,017,885)	2,357,154	2,350,000
<u>General Obligation Bonds</u>					
1999 \$177,920 Various Purpose Improvement Bonds, 5.2-6.5%	26,601	-	(13,147)	13,454	13,454
2007 \$1,710,000 Aberdeen Business Park Improvement Bonds, 4.0-5.0%	960,000	-	(90,000)	870,000	90,000
2011 \$5,145,000 Various Purpose Refunding Bonds, 2.0-3.125%	1,440,000	-	(310,000)	1,130,000	305,000
Total General Obligation Bonds	2,426,601	-	(413,147)	2,013,454	408,454
<u>Special Assessment Bonds (a)</u>					
1999 \$837,080 Alpha Improvement Assessment, 5.2-6.5%	128,398	-	(61,853)	66,545	66,545
1999 \$4,460,000 Street Improvement (Aberdeen Boulevard) Bonds, 4.1-5.7%	990,000	-	(310,000)	680,000	330,000
Total Special Assessment Bonds	1,118,398	-	(371,853)	746,545	396,545
<u>Ohio Public Works Commission</u>					
1997 \$1,640,626 Highland Road Sanitary Sewer, 0%	246,094	-	(82,032)	164,062	82,032
1998 \$960,310 Miner and Bishop Roads Sanitary Sewers, 0%	168,055	-	(48,016)	120,039	48,013
1998 \$145,238 Millridge Water Main Replacement, 0%	18,154	-	(7,262)	10,892	7,262
1999 \$686,733 Sanitary Sewer Selected Locations, 0%	154,516	-	(34,338)	120,178	34,338
2008 \$629,941 Highland-Bishop Intersection Improvement, 0%	425,210	-	(31,497)	393,713	31,497
2015 \$686,800 Miner/Highland Intersection and Road Rehab, 0%	652,460	-	(34,340)	618,120	34,340
2015 \$1,703,770 Highland Road Water Main Replacement, 0%	1,535,212	168,558	-	1,703,770	28,396
Total Ohio Public Works Commission	3,199,701	168,558	(237,485)	3,130,774	265,878

(Continued)

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

	Restated Principal Outstanding 12/31/2017	Additions	Deletions	Principal Outstanding 12/31/2018	Amounts Due in One Year
<i>Other Long-term Liabilities</i>					
Unamortized Bond Premium	\$ 122,364	\$ -	\$ (16,509)	\$ 105,855	\$ -
Net Pension Liability					
OPERS	4,517,362	-	(1,336,764)	3,180,598	-
OP&F	10,324,104	-	(9,818)	10,314,286	-
Total Net Pension Liability	14,841,466	-	(1,346,582)	13,494,884	-
Net OPEB Liability					
OPERS	1,981,687	172,792	-	2,154,479	-
OP&F	7,737,243	1,784,511	-	9,521,754	-
Total OPEB Liability	9,718,930	1,957,303	-	11,676,233	-
Compensated Absences	1,554,804	565,481	(606,702)	1,513,583	614,736
<i>Total Other Long-term Liabilities</i>	26,237,564	2,522,784	(1,969,793)	26,790,555	614,736
Total Governmental Long-Term Liabilities	\$ 36,991,206	\$ 5,057,439	\$ (7,010,163)	\$ 35,038,482	\$ 4,035,613

(a) Includes only the portion of the bonds expected to be paid from special assessments. The remaining portion (City's share) of the bonds is to be paid from general City revenues and is included under the "General Obligation Bonds" caption.

The 1999 bonds were for the City's portion of the improvement of Alpha Drive. The 2007 bonds were issued for the construction of Aberdeen Business Park.

Defeased Debt

On October 5, 2011, the City issued \$5,145,000 in bonds for the purpose of refunding all of the City's outstanding various purpose improvements bonds, series 1997 and series 2001. The refunding bonds were issued to refund at a lower overall interest cost all of the outstanding 2011 bonds maturing after December 1, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the bonds were removed from the City's government-wide financial statements. The aggregate debt service on the Series 1997 and 2001 bonds was \$6,506,803 versus \$5,851,963 for the refunding bonds. As a result of the advance refunding, the City's cash savings attributable to this refunding transaction was \$654,840. The present value of the difference between the two debt streams using the arbitrage yield was \$596,290 which constitutes the economic gain on the transaction. The 2011 refunding balance was 1,130,000 as of December 31, 2018.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 14: **LONG-TERM OBLIGATIONS** (Continued)

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from both voted and unvoted general property taxes levied on all taxable property located within the City. Tax monies will be received in, and the debt will be retired from, the General Obligation Bond Retirement Fund, except for the 2007 Aberdeen Business Park Improvement Bond. This bond is paid out of the Special Assessment Bond Retirement Fund since it is payable from proceeds of assessments.

Special assessments bonds are payable from the proceeds of assessments against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in, and the debt will be retired from, the Special Assessment Bond Retirement Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments.

In 2015, the City entered into a loan agreement with Ohio Public Works Commission (OPWC) for \$1,703,770. These funds are being used for Highland Road Water Main Replacement project which was started in 2016. The debt is a zero percent interest loan over thirty years. As of December 31, 2018, the loan balance for the portion of the project completed was \$1,703,770.

The OPWC loans will be paid by revenues transferred from the General Fund and from special assessment proceeds. Compensated absences will be paid from the General Fund, the Street Construction, Maintenance, and Repair Fund, and the Parks and Recreation Fund.

On June 13, 2018, the City issued \$3,000,000 in Various Purpose Improvement Notes for an interest rate of 2.75%, maturing on June 13, 2019. The proceeds were used to retire the outstanding 2017 Various Purpose Improvement Notes. \$650,000 of these notes are considered short-term and the remaining \$2,350,000 are considered long-term.

There is no repayment schedule for the net pension and net OPEB liability. However, employer pension contributions are made mainly from the general fund. See Note 11 and 12 for information regarding net pension and net OPEB liability.

Legal Debt Margin

Under the Uniform Bond Act of the Ohio Revised Code, at December 31, 2018, the City's overall debt margin was \$35,279,900 with an unvoted debt margin of \$15,403,433.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 14: LONG-TERM OBLIGATIONS (Continued)

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2018, from the general resources of the City are as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2019	408,454	76,940	396,545	42,092
2020	425,000	64,038	350,000	19,950
2021	365,000	49,388	-	-
2022	180,000	36,438	-	-
2023	185,000	28,844	-	-
2024-2028	450,000	40,250	-	-
Totals	<u>\$ 2,013,454</u>	<u>\$ 295,898</u>	<u>\$ 746,545</u>	<u>\$ 62,043</u>

Year	OPWC Loans		Total	
	Principal	Interest	Principal	Interest
2019	265,878	-	1,070,877	119,032
2020	290,644	-	1,065,644	83,988
2021	180,973	-	545,973	49,388
2022	139,798	-	319,798	36,438
2023	122,629	-	307,629	28,844
2024-2028	613,147	-	1,063,147	40,250
2029-2033	534,404	-	534,404	-
2034-2038	386,982	-	386,982	-
2039-2043	283,962	-	283,962	-
2044-2048	283,962	-	283,962	-
2049-2053	28,395	-	28,395	-
Totals	<u>\$ 3,130,774</u>	<u>\$ -</u>	<u>\$ 5,890,773</u>	<u>\$ 357,940</u>

NOTE 15: NORTHERN OHIO RISK MANAGEMENT ASSOCIATION

The Northern Ohio Risk Management Association is a shared risk pool comprised of the Cities of Bedford Heights, Eastlake, Highland Heights, Hudson, Maple Heights, Mayfield Heights, Richmond Heights, Solon, South Euclid, University Heights, and the Village of Chagrin Falls for the purpose of enabling its members to obtain property and liability insurance, including vehicle, and provide for a formalized, jointly administered self-insurance fund. The members formed a not-for-profit corporation known as NORMA, Inc. to administer the pool. NORMA is governed by a Board of Trustees that consists of the mayor from each of the participating members. Each entity must remain a member for at least three years from its initial entry date. After the initial three years, each City may extend its term by an additional three years.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 15: **NORTHERN OHIO RISK MANAGEMENT ASSOCIATION** (Continued)

Each member provides operating resources to NORMA based on actuarially determined rates. In the event of losses, the first \$2,500 of any valid claim will be paid by the member. The next payment, generally a maximum of \$97,500 per occurrence, will come from the self-insurance pool with any excess paid from the stop loss coverage carried by the pool after a deductible of \$7,000 is met. Any loss over these amounts would be the obligation of the individual member. If the aggregate claims paid by the pool exceed the available resources, the pool may require the members to make additional supplementary payments up to a maximum of the regular annual payment.

In 2018, the City of Highland Heights paid \$102,395.50 in premiums from the General Fund, which represents 4.92 percent of total premiums. Financial information can be obtained by contacting the fiscal agent, the Finance Director at the City of Highland Heights, 5827 Highland Road, Highland Heights, Ohio, 44143.

NOTE 16: **RISK MANAGEMENT**

NORMA provides a pool of self-insurance for liability and property damage, vehicles, boiler and machinery, theft, bonding of city employees, and public officials' errors and omissions. The City's share of NORMA's claims and expenses are accounted among General Fund departments and other funds in proportion to the protection provided for the assets in those General Fund departments and other funds. The agreement of formation of NORMA provides that NORMA will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of the limits described in the agreement.

Settled claims have not exceeded commercial coverage in any of the past three years. Also, there have been no significant reductions in the limits of liability.

All employees of the City are covered by a blanket bond, while certain individuals in policy-making roles are covered by separate, higher limit bond coverage.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

The City provides medical, dental, and prescription benefits for all full-time employees. All payments are made from the General Fund based on amounts needed to pay prior and current year claims. Costs are based on actuarial estimations, demographics, and the City's claim history.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 16: **RISK MANAGEMENT** (Continued)

The medical and prescription benefits are provided through United Healthcare from January 1 through December 31, 2018. Dental and vision benefits are provided through Cigna. Payments are made from the General Fund on a monthly basis. The expenses are allocated by the number of employees in each department multiplied by the fixed premium rate for each employee. The monthly premium for medical and prescription benefits through United Healthcare is \$559.68 for single coverage; \$1,169.83 for employee and spouse coverage; \$947.96 for employee and children coverage; and \$1,641.31 for family coverage. The monthly premium for dental and vision benefits is \$30.05 for single coverage and \$87.16 for family coverage.

NOTE 17: **CONTINGENT LIABILITIES**

City management, after consultation with the City's Director of Law, is of the opinion that the ultimate disposition of such lawsuits will not result in a material adverse effect on the City's financial position.

NOTE 18: **JOINTLY GOVERNED ORGANIZATION**

Community Partnership on Aging Council of Governments

The Community Partnership on Aging (Partnership) is a joint venture among the cities of Highland Heights, Lyndhurst, Mayfield Heights, and South Euclid, formed for the purpose of coordinating among the cities all matters related to assistance and programs for the aged. Partnership revenues consist of contributions from the member cities and Federal grants. The governing board of the partnership is a Council of Governments composed of the mayors of Highland Heights, Lyndhurst, Mayfield Heights, Mayfield Village and South Euclid, with the advice of a nine-member commission. Continued existence of the Partnership is dependent on the City; however, the City has no explicit and measurable equity interest in the Partnership. The Partnership is not accumulating financial resources or experiencing fiscal stress which would cause additional financial benefit to, or burden on, the City. In 2018, the City contributed \$79,904, which represents 12.76 percent of its revenue. To obtain a copy of the Consortium's financial statements, write to the Community Partnership on Aging, 1370 Victory Drive, South Euclid, Ohio 44121

Eastern Suburban Regional Council of Governments

The Eastern Suburban Regional Council of Governments (ESCOG) was formed in 1972 to foster cooperation between member municipalities through sharing of facilities for mutual benefit. The governing body of ESCOG is a council comprised of one representative from each of the six participating municipalities. The Council operates in accordance with a written agreement establishing ESCOG pursuant to Ohio Revised Code Chapter 167.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 18: **JOINTLY GOVERNED ORGANIZATION** (Continued)

The Council established one subsidiary organization, the Suburban Police Anti-Crime Network (SPAN), which provides for the mutual interchange and sharing of police personnel and police equipment to be utilized by all participating members.

The Council adopts a budget for ESCOG annually. Each member municipality's degree of control is limited to its representation on the Council. The City contributed \$25,500 to ESCOG in 2018.

Northeast Ohio Public Energy Council

The City is a member of the Northeast Ohio Public Energy Council ("NOPEC"). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time ensuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The City did not contribute to NOPEC in 2018. Financial information can be obtained by contacting Joseph Migliorini, Board Chairman, 31360 Solon Road, Suite 33, Solon, Ohio 44139.

Mayfield Union Cemetery

The Mayfield Union Cemetery is a jointly governed organization among three local communities (the Village of Mayfield, the City of Highland Heights, and the City of Mayfield Heights). The jointly governed organization was formed based on the boundaries in relation to the cemetery. Each of the communities contributes a nominal fee for the maintenance of the cemetery. The Village of Mayfield assumes the daily accounting and reporting of the cemetery finances. The Cemetery Board consists of three Board members, with one council member appointed from each of the three communities. Financial information can be obtained by contacting the Director of Finance at the Village of Mayfield, 6621 Wilson Mills Road, Mayfield Village, Ohio 44143.

City of Highland Heights, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2018

NOTE 19: OTHER COMMITMENTS

The City utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are components of fund balance for subsequent year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. As of December 31, 2018, the City's commitments for encumbrances in the governmental funds were as follows:

	<u>Encumbrances Outstanding</u>
General	\$ 75,981
Capital Improvement	376,774
Nonmajor Funds:	
Special Revenue Funds	<u>136,372</u>
Total	<u>\$ 589,127</u>

NOTE 20: ACCOUNTABILITY

Fund balances at December 31, 2018 included the following individual fund deficit:

	<u>Deficit</u>
Major Governmental Funds:	
General Bond Retirement	<u>\$ 3,885</u>

The General Fund is liable for any deficits in this fund and provides transfers when cash is required not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities in accordance with generally accepted accounting principles (GAAP).

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System
Last Five Years (1)

<u>Traditional Plan</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
City's Proportion of the Net Pension Liability	0.020274%	0.019893%	0.020318%	0.020421%	0.020421%
City's Proportionate Share of the Net Pension Liability	\$3,180,598	\$4,517,362	\$3,519,331	\$2,463,001	\$2,407,370
City's Covered Payroll	\$2,679,192	\$2,571,567	\$2,528,742	\$2,511,908	\$2,749,315
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.71%	175.67%	139.17%	98.05%	87.56%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net Pension Liability
Ohio Police and Fire Pension Fund
Last Five Years (1)

Police	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0832190%	0.0807100%	0.0832094%	0.0877892%	0.0877892%
City's Proportionate Share of the Net Pension Liability	\$5,107,541	\$5,112,113	\$5,352,922	\$4,547,845	\$4,275,609
City's Covered Payroll	\$1,994,342	\$1,944,758	\$1,907,674	\$1,932,211	\$2,370,598
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	256.10%	262.87%	280.60%	235.37%	180.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%
Fire	2018	2017	2016	2015	2014
City's Proportion of the Net Pension Liability	0.0848360%	0.0822870%	0.0864334%	0.0859751%	0.0859751%
City's Proportionate Share of the Net Pension Liability	\$5,206,745	\$5,211,991	\$5,560,323	\$4,453,869	\$4,187,257
City's Covered Payroll	\$1,672,387	\$1,607,672	\$1,585,928	\$1,533,106	\$1,767,766
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	311.34%	324.19%	350.60%	290.51%	236.87%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.91%	68.36%	66.77%	71.71%	73.00%

(1) Information prior to 2014 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions - Pension
Ohio Public Employees Retirement System
Last Six Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Contributions	\$385,270	\$348,295	\$308,588	\$303,449	\$301,429	\$357,411
Contributions in Relation to the Contractually Required Contribution	(\$385,270)	(\$348,295)	(\$308,588)	(\$303,449)	(\$301,429)	(\$357,411)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0
City's Covered Payroll	\$2,751,929	\$2,679,192	\$2,571,567	\$2,528,742	\$2,511,908	\$2,749,315
Pension Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

**City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- Pension
Ohio Police and Fire Pension Fund
Last Ten Years (1)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Contractually Required Contributions</u>										
Police	\$406,149	\$378,925	\$369,504	\$362,458	\$367,120	\$372,895	\$355,123	\$354,841	\$346,840	\$336,563
Fire	\$408,058	\$393,011	\$377,803	\$372,693	\$360,280	\$357,619	\$358,019	\$353,068	\$315,439	\$311,313
Total Required Contributions	\$814,207	\$771,936	\$747,307	\$735,151	\$727,400	\$730,514	\$713,142	\$707,909	\$662,279	\$647,876
Contributions in Relation to the Contractually Required Contribution	(\$814,207)	(\$771,936)	(\$747,307)	(\$735,151)	(\$727,400)	(\$730,514)	(\$713,142)	(\$707,909)	(\$662,279)	(\$647,876)
Contribution Deficiency / (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
City's Covered Payroll										
Police	\$2,137,626	\$1,994,342	\$1,944,758	\$1,907,674	\$1,932,211	\$2,370,598	\$2,785,278	\$2,783,067	\$2,720,314	\$2,639,710
Fire	\$1,736,417	\$1,672,387	\$1,607,672	\$1,585,928	\$1,533,106	\$1,767,766	\$2,075,472	\$2,046,771	\$1,828,632	\$1,804,713
<u>Pension Contributions as a Percentage of Covered Payroll</u>										
Police	19.00%	19.00%	19.00%	19.00%	19.00%	[1]	12.75%	12.75%	12.75%	12.75%
Fire	23.50%	23.50%	23.50%	23.50%	23.50%	[1]	17.25%	17.25%	17.25%	17.25%

[1] – The portion of the City's contributions to fund pension obligations from January 1, 2013 thru May 31, 2013, for both police officers and firefighters was 14.81 percent and 19.31 percent, respectively. The portion of the City's contributions to fund pension obligations from June 1, 2013 thru December 31, 2013 for both police officers and firefighters was 16.65 percent and 21.15 percent, respectively.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability
Ohio Public Employees Retirement System
Last Two Years (1)

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.019840%	0.019620%
City's Proportionate Share of the Net OPEB Liability	\$ 2,154,479	\$ 1,981,687
City's Covered Payroll	\$ 2,809,860	\$ 2,711,600
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	76.68%	73.08%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.04%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Proportionate Share of the Net OPEB Liability
Ohio Police and Fire Pension Fund
Last Two Years (1)

	<u>2018</u>	<u>2017</u>
City's Proportion of the Net OPEB Liability	0.168055%	0.163000%
City's Proportionate Share of the Net OPEB Liability	\$ 9,521,754	\$ 7,737,243
City's Covered Payroll	\$ 3,666,729	\$ 3,552,430
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	259.68%	217.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	14.13%	15.96%

(1) Information prior to 2017 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

Amounts presented as of the City's measurement date, which is the prior calendar year end.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- OPEB
Ohio Public Employees Retirement System
Last Four Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 5,628	\$ 28,099	\$ 54,232	\$ 52,739
Contributions in Relation to the Contractually Required Contribution	<u>(5,628)</u>	<u>(28,099)</u>	<u>(54,232)</u>	<u>(52,739)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 2,893,657	\$ 2,809,860	\$ 2,711,600	\$ 2,636,957
Contributions as a Percentage of Covered Payroll	0.19%	1.00%	2.00%	2.00%

(1) Information prior to 2015 is not available. Schedule is intended to show ten years of information, and additional years' will be displayed as it becomes available.

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Required Supplementary Information
Schedule of the City's Contributions- OPEB
Ohio Police and Fire Pension Fund
Last Ten Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$ 19,370	\$ 18,334	\$ 17,762	\$ 18,968	\$ 18,835	\$ 123,052	\$ 223,620	\$ 222,129	\$ 208,777	\$ 204,060
Contributions in Relation to the Contractually Required Contribution	(19,370)	(18,334)	(17,762)	(18,968)	(18,835)	(123,052)	(223,620)	(222,129)	(208,777)	(204,060)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City Covered Payroll	\$ 3,874,043	\$ 3,666,729	\$ 3,552,430	\$ 3,493,602	\$ 3,465,317	\$ 4,138,364	\$ 4,860,750	\$ 4,829,838	\$ 4,548,946	\$ 4,444,423
Contributions as a Percentage of Covered Payroll	0.50%	0.50%	0.50%	0.50%	0.50%	3.62%	6.75%	6.75%	6.75%	6.75%

See accompanying notes to the required supplementary information

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016 and 2018. For 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the expected investment return was reduced from 8.00% to 7.50%, (b) the expected long-term average wage inflation rate was reduced from 3.75% to 3.25%, (c) the expected long-term average price inflation rate was reduced from 3.00% to 2.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) mortality rates were updated to the RP-2014 Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2015 (f) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2015 for males and 2010 for females (g) Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 4.23 percent to 3.85 percent

City of Highland Heights, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2018

OHIO POLICE AND FIRE (OP&F) PENSION FUND

Net Pension Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2014-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2017. For 2018, the following changes of assumptions affected the total pension liability since the prior measurement date: (a) the investment rate of return was reduced from 8.25 percent to 8.00 percent (b) the projected salary increases was reduced from 4.25% to 3.75% (c) the payroll increases was reduced from 3.75% to 3.25% (d) the inflation assumptions was reduced from 3.25% to 2.75% (e) the cost of living adjustments was reduced from 2.60% to 2.20% (f) rates of withdrawal, disability and service retirement were updated to reflect recent experience (g) mortality rates were updated to the RP-2014 Total Employee and Health Annuitant Mortality Table, adjusted for mortality improvement back to the observant period base year of 2006 and then established the base year as 2016 (h) mortality rates used in evaluating disability allowances were updated to the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and a base year of 2016.

Net OPEB Liability

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for 2018.

Changes in assumptions: For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

JAMES G. ZUPKA, C.P.A., INC.

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Members of City Council
City of Highland Heights
Highland Heights, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Highland Heights, Cuyahoga County, Ohio, (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 3, 2020, wherein we noted the City adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



James G. Zupka, CPA, Inc.
Certified Public Accountants

June 3, 2020

**CITY OF HIGHLAND HEIGHTS
CUYAHOGA COUNTY, OHIO
SCHEDULE OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018**

The prior audit report, as of December 31, 2017, included no citations or instances of noncompliance. Management letter recommendations were corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF HIGHLAND HEIGHTS

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 7, 2020**